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WEEKLY REPORT



THE SITUATION IN SOUTH VIETNAM

29 December 1965

INTELLIGENCE AND REPORTING SUBCOMMITTEE OF THE INTERAGENCY

VIETNAM COORDINATING COMMITTEE

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THE SITUATION IN SOUTH VIETNAM
(23 December - 29 December 1965)

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(The Weekly Report on the Situation in South Vietnam is based on contributions from CIA, DIA, and INR; it is edited and published by CIA without final coordination.)

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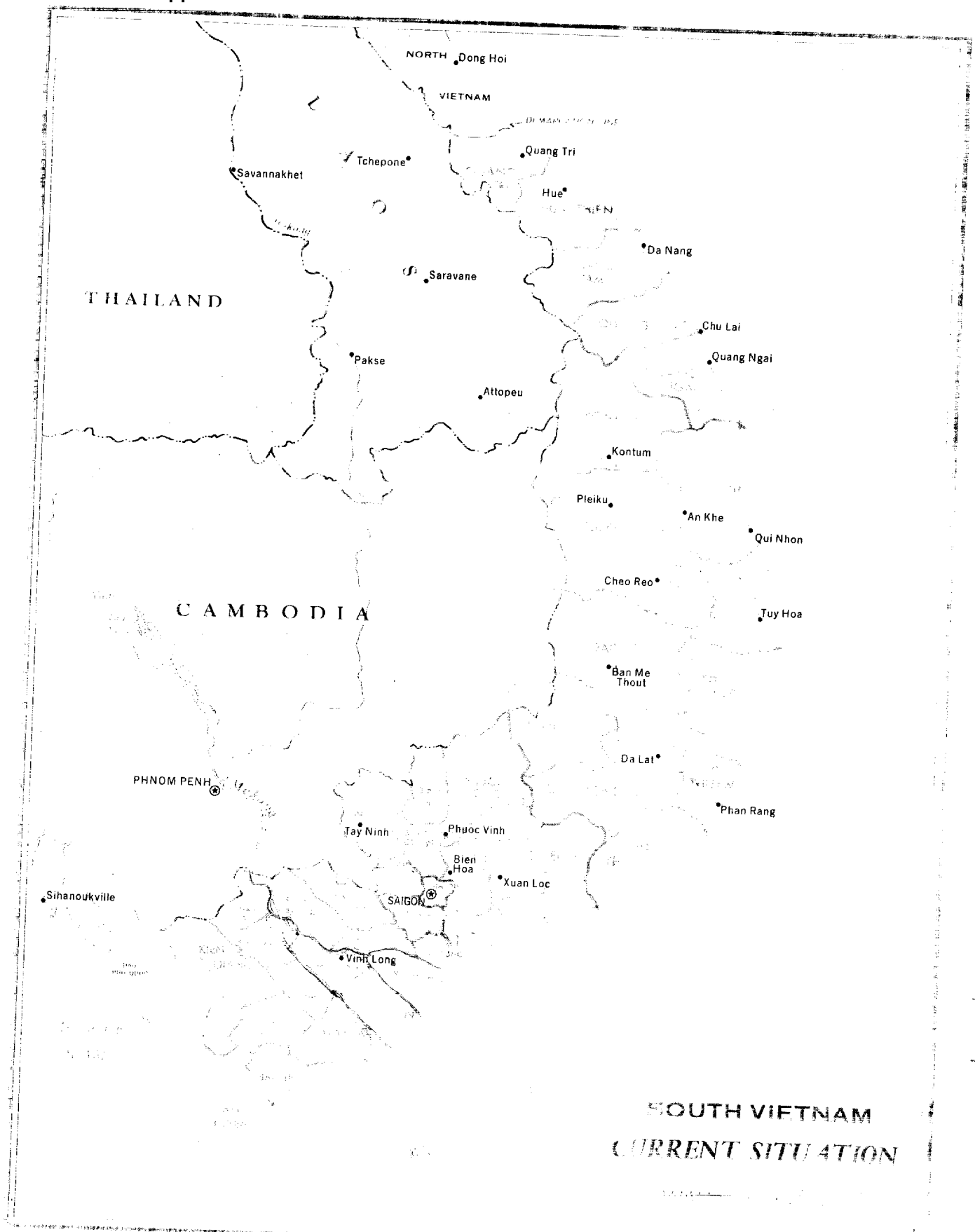
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THE WEEK IN PERSPECTIVE

Little heavy fighting took place in South Vietnam last week, but the incident rate remained high. The seven-day period was highlighted by a Christmas truce, more fastidiously observed by the allies than by the Viet Cong.

The South Vietnamese Government has begun to initiate a policy of reprisals against supporters of the dissident tribal autonomy movement, **FULRO**, although some officials are still urging moderation. Meanwhile, there are continuing reports of dissatisfaction within the military over the present Ky-Thieu leadership, including rumors of coup plotting.

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I. THE SITUATION IN SOUTH VIETNAM

A. POLITICAL SITUATION

1. The South Vietnamese Government has begun to implement a tougher policy toward members and sympathizers of the tribal autonomy movement FULRO, which staged an abortive uprising in the central highlands ten days ago. A military tribunal in II Corps began holding trials on 27 and 28 December for nearly 40 persons accused of complicity in the revolt, about half of them tribesmen from a rebellious government paramilitary company in Phu Bon Province. The remainder are officials, schoolteachers, and students arrested in Pleiku Province for complicity with FULRO. Four of the troops were sentenced to death; two of them have already been publicly executed in Pleiku, and the other two, unless granted clemency, are scheduled for execution in Phu Bon. Some 30 montagnards have received sentences ranging from life imprisonment, in one case, to one year, with the majority sentenced to 10-20 years of combined prison terms and exile. Only four men were acquitted.

2. Additionally, II Corps commander General Vinh Loc issued two decrees aimed at crushing the FULRO movement. The first orders the populace to refrain from any cooperation with FULRO on penalty of execution. The second decree, apparently not yet published but presumably dating from 20 December, grants members of FULRO a grace period of 20 days in which to surrender, after which they will face "the severest punishment."

3. Some members of the government in Saigon, including vice premier and defense minister General Co, reportedly are counseling restraint toward the majority of some 300 FULRO members in government hands, lest there be an adverse reaction among the montagnard tribes in general. General Loc himself, a strong proponent of a tough line toward the FULRO rebels, included programs of assistance to the montagnards in a recent planning session on pacification in II Corps. However, Loc and other military officers in II Corps have reportedly agreed to keep another 300 former FULRO troops, who pledged allegiance

to the government late last summer, on extended training detail in coastal Khanh Hoa Province, rather than return them to active combat against the Viet Cong in the highlands.

4. In Saigon, meanwhile, there are further reports of dissatisfaction within the military over the performance of General Ky as premier, and of possible coup plotting to overthrow Ky and chief of state General Thieu. [REDACTED]

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[REDACTED] police director Colonel Pham Van Lieu, in complicity with I Corps commander General Nguyen Chanh Thi, is plotting a coup to take place at the end of December or in early January. [REDACTED]

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[REDACTED] Quang has been approached on behalf of unnamed Catholic generals seeking his support for a move to oust Ky and Thieu; Quang, who has made no secret of his distaste for Thieu, a Catholic with Dai Viet Party connections, was alleged to feel that a change in government would open up little prospect for the Buddhists until they have successfully launched a Buddhist political party.

5. Although there continues to be no firm evidence of any imminent coup, criticisms of Ky and his government's alleged failings continue to be reported from various circles. General Thi has frequently been quoted as critical of the regime's lack of progress and as expecting eventually to be called upon to take over the government and rid it of corruption. He has been reported closely associated with Lieu since their mutual paratroop service. Lieu himself appears independently ambitious. He has indicated that he desires a broader cabinet assignment in the intelligence-security field. He is also associated with several members of Ky's original civilian "braintrust," some of whom Ky reportedly desires to remove from positions of influence.

6. Earlier this month, Colonel Lieu reportedly observed that differences among South Vietnam's ruling generals were increasing, but that no faction appeared capable of mustering enough support to mount a coup. Lieu indicated in particular that southern-oriented generals, including Defense Minister Co, were dissatisfied, and that retired General Tran Van

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Don and his southern supporters were a threat to stability. Lieu commented, however, that he felt the only likely means by which Ky might be replaced would be by decision of the ruling military Directorate.

7. Premier Ky continues both publicly and privately to discount the likelihood of a successful coup attempt. In comments to the press on 29 December, he implied, however, that other means might be tried to remove him. He cited, as an example, attempts to bribe him with up to US \$1,000,000 to accept a post abroad.

8. Indicative of the type of charge to which Ky may prove vulnerable was the recent exoneration by a military tribunal of General Tran Tu Oai--a prominent officer during the Diem regime--and 12 associates accused of embezzlement. No explanation for the acquittal of Oai, who was tried in absentia, has been offered, despite the fact that the case against him was allegedly "air-tight," and expected to become a major example of the government's anticorruption policies.

9. The secretary-general of the Directorate, General Phan Xuan Chieu, recently outlined to a US Embassy officer government plans for establishing an advisory council early in 1966. Chieu stated that the Directorate had decided, with only Premier Ky in opposition, to grant the council more concrete responsibility than originally proposed. He said that the council would probably have about 60 members, who would be formally presented to the public following the convocation of another armed forces congress, probably about the time of the lunar new year, or Tet, from 21-23 January. Chieu volunteered no information on the identity of the council members, implying some difficulty in finding qualified persons willing to serve. He noted, moreover, that earlier plans to establish a "national front" of political parties to support the military regime had been deferred, presumably because prominent civilian politicians were more interested in opposition activity.

10. In connection with the projected advisory council, Buddhist monk Tri Quang has on more than

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one occasion emphasized to US Embassy officers his dissatisfaction with the Directorate's plans. Quang's objections appear to stem from a belief that the council will have virtually no representation from existing provincial and municipal councils, currently the only democratically elected bodies in South Vietnam. In the background of Quang's position is his apparent suspicion that the advisory council may be a vehicle for Directorate chairman General Thieu to further the prospects of the Dai Viet Party and various Catholic elements.

11. The Viet Cong Liberation radio on 28 December broadcast a "decision" of the Liberation Front to cease attacks on government troops during the Tet festivals, for the four-day period from 20 through 23 January. The broadcast, stressing the national character of the Tet holiday, did not specify a cessation of attacks on US and third country troops during the lunar new year period, but implied that attacks by the latter during the Tet would incur the opposition of all Vietnamese forces--the Communist as well as the government. In previous years, the Viet Cong have sharply reduced activity during the new year period, but last year the Tet was followed by a sharply intensified Communist military campaign.

12. South Vietnamese officials, who last year proclaimed no open cease-fire posture during the Tet but generally held operational activity to a minimum, have indicated that they may also observe a cease-fire this year. However, possibly to curb speculation of a bid to initiate negotiations, South Vietnam's Foreign Minister Tran Van Do told an American reporter on 28 December that South Vietnam opposes any formal cease-fire or unconditional negotiations with the Communists. Do characterized the Saigon government as willing to entertain "corridor" discussions, but "dead set" against peace negotiations at present. He claimed that the Communists would never negotiate in good faith, as long as they felt they stood a chance of winning on the battlefield. Do added that he did not think there was any contradiction between his government's position and the US willingness to engage in "unconditional discussions."

13. Both Premier Ky and Chief of State Thieu have also reiterated to the press in recent days their belief that the Communists were not prepared to undertake serious negotiations at present. Ky rejected the four points proposed by North Vietnam as a basis for negotiations as tantamount to asking "unconditional surrender". General Thieu declared that any possibility of talks depended on the Communists, but indicated that he felt that, because of Chinese Communist pressure on North Vietnam, the outlook was for further escalation of the war.

Economic Situation

14. During the week ending 20 December retail prices in the Saigon area generally remained at levels slightly under those prevailing a month earlier. Prices of imported commodities continued to rise moderately except for certain commodities such as cement, the price of which has risen 129% over the past month.

15. As a result of meetings with rice merchants, the GVN Ministry of National Economy has now agreed to government purchases of red rice as well as white rice. While this will partially ease the over-all rice problem, private banks on the other hand, may adopt a more restrictive rice credit policy. The US mission is encouraging easing of these credit restrictions.

16. Congestion in the Port of Saigon is expected to be improved to a limited degree when the (French) Messageries Maritimes complex, which was recently purchased by the GVN, is turned over to the US Army on 1 January for exclusive use of US military cargo. However, ports in central and northern South Vietnam are experiencing off-loading delays due to the onset of the northeast monsoon.

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B. MILITARY SITUATION

1. Combat activity remained at a generally low level throughout the week, with no significant confrontations occurring. Only two of the eight Viet Cong attacks were estimated at battalion or larger size. The highlight of the period was a relatively one-sided Christmas cease-fire.

2. During the period 19-25 December, 861 incidents were reported, comparable to 866 the previous week. The kill ratio favored the government to a lesser degree, 3.7 to 1 as against 4.3 to 1 last week. Viet Cong casualties included 937 killed and 137 captured, about the same as last week's 952 and 130. The government lost 227 killed, 499 wounded, and 104 missing or captured, an improvement over the previous week's 359, 555, and 257 respectively. US casualties were 21 killed, 95 wounded, and 11 missing or captured. No allied casualties were reported. Weapons losses slightly favored the government forces, who lost 226 and captured 246. A marked decline of Chieu Hoi response also occurred, with 35 military defectors compared to 214 last week and 11 political returnees as against 101.

GVN/Allied Activities

3. Government and Allied military activity continued, until Christmas, at the same level as in the previous week, with one highly successful operation reported. Of 70 battalion or larger operations during the 19-25 December period, 42 made enemy contact, whereas last week's 69 achieved only 31. A total of 23,661 small unit operations, including 2,726 US, resulted in 163 contacts, with 78 of these by American troops.

4. The most significant government action of the week was an ARVN 21st Division operation on 22 December. More than seven ARVN battalions boxed in an estimated Viet Cong battalion in the Chuong Thien-Phong Dinh border area of IV Corps Tactical Zone. Maximum use was made of artillery and tactical air support, and Viet Cong positions in a canal-cut paddy area were then assaulted, resulting in 282 Viet Cong

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killed and 12 captured, along with numerous weapons. ARVN losses were 21 killed and 51 wounded.

5. Friendly military activities were halted abruptly during a GVN-ordered Christmas cease-fire which began at 6 PM on 24 December. Following a series of incidents and small attacks by the Viet Cong, friendly operations were resumed after the cease-fire period. No significant major engagements have developed, although ARVN reports of a three-battalion search-and-destroy effort in Long An Province indicate contact with a substantial Viet Cong force on 27 December; initial casualty figures show 100 Viet Cong killed, with ARVN losses of two killed and nine wounded.

6. US and Allied forces ended a relatively quiet week by moving back to base areas for the Christmas holiday, and terminating several operations. Three US and one Korean operations of battalion or larger size are now in progress, in addition to six being conducted by ARVN forces.

7. Sea, River, and Coastal Force operations declined during the 19-25 December period, with 3,035 junks and 11,834 persons searched, compared to 3,655 and 15,078 of the previous week. Of the 106 detainees, none was confirmed Viet Cong.

8. B-52 raids were concentrated against target areas in Bien Hoa and Vinh Binh provinces during the pre-Christmas period. The first B-52 Stratofortress strike since the holiday was conducted on 28 December against a suspected Viet Cong complex in Quang Tri Province. The total number of B-52 missions over South Vietnam to date is 133.

Communist Activities

9. Viet Cong activity continued at the same high level throughout the week of 19-25 December, but its intensity decreased. Partial observance by the Viet Cong of their announced Christmas Eve 12-hour cease-fire, with disregard for a 30-hour Allied cease-fire, highlighted the end of the week. A total of 65 incidents occurred during the 30-hour period, with 18 during the Viet Cong 12-hour lull. The same incident

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distribution pattern with respect to Corps Tactical Zones prevailed during the Christmas period as throughout the week. Since the official end of the Viet Cong cease-fire at 7 AM on 25 December, the tempo and intensity of Communist activity have increased.

10. Incident levels remained high all week in I Corps (CTZ), where six attacks, including two of battalion or larger scale, were mounted. A multibattalion attack against an outpost in western Quang Tri seemed indicative of a renewed Viet Cong effort to re-occupy the Route 9-Ba Long Valley infiltration corridor. An estimated Viet Cong battalion attacked a Regional Force company about seven miles north of Quang Ngai City. Elsewhere in I CTZ, the usual variety of harassment and interdiction was in evidence.

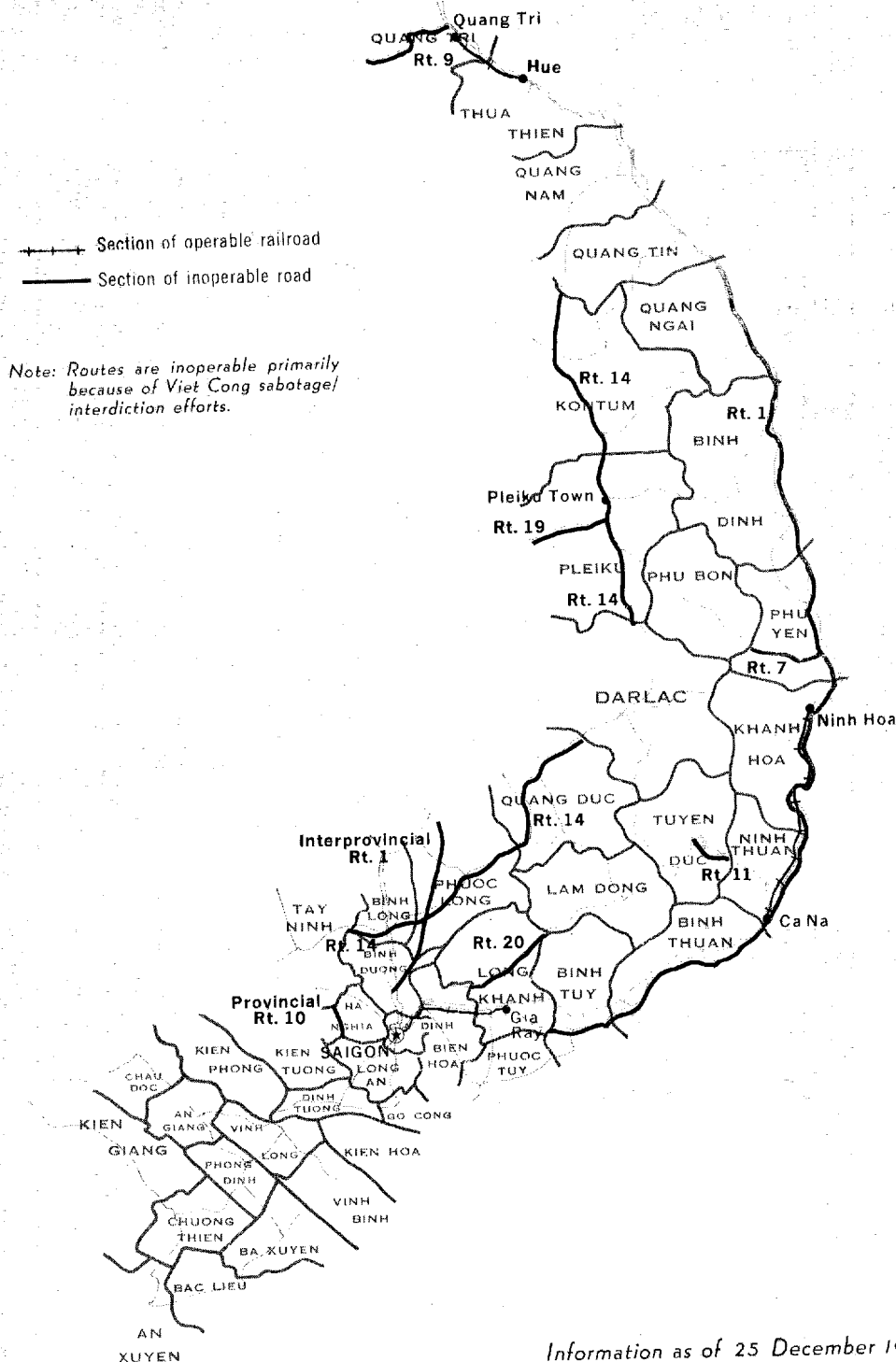
11. No attacks were reported in II CTZ, and incident levels were low there for the eighth consecutive week. The continued inactivity of Viet Cong/PAVN units in this region is believed indicative of a regroupment, replacement, and retraining phase. Continued infiltration and other movements are reported, and PAVN forces involved at Plei Me and Chu Pong during October and November are expected to be capable of large-scale attacks in the highlands within two weeks.

12. In III CTZ, a one or two-company attack was reported in Hau Nghia Province, involving the Trung Lap Training Center. The 101st Regiment, 325th Division (PAVN), has reportedly moved from Quang Duc Province of II CTZ into northern Bien Hoa Province of III CTZ, with the alleged mission of attacking Bien Hoa Air Base. There are low-level indications that a battalion of the Dong Thap Regiment has moved from IV CTZ into Long An Province in III CTZ. These relocations are unconfirmed, but the threat of isolation of the capital area appears to be increasing.

13. In the Capital Military Region, a series of grenade incidents marked the continuation of the Viet Cong's anti-American and anti-police terroristic campaign. Two assassinations of hamlet chiefs in the Capital Military Region brought the total of such incidents to five during December. There have been 11 assassinations of local government officials in three months in the Hop Tac area. Since mid-December four

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CURRENT OPERATIONAL STATUS OF MAJOR TRANSPORTATION ROUTES AND COASTAL RAILROAD



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bridges have been sabotaged in the Nha Be district, leaving only one road open between the Nha Be fuel storage complex and Saigon. A recent low-level report says a reinforced battalion has the mission of attacking Binh Chanh district town, in the Capital Military Region.

14. One attack occurred in IV CTZ, involving two Viet Cong companies against a Special Forces camp in Kien Tuong Province. Of the incidents perpetrated by the Viet Cong during the Christmas ceasefire period, almost twice as many occurred in IV CTZ as in any other zone.

15. National Route 1 is closed in Quang Ngai, Binh Dinh, Phu Yen, Khanh Hoa, Ninh Thuan, Binh Thuan, and Binh Tuy provinces. Route 9 is closed in Quang Tri Province. Route 14 is closed in Kontum, Pleiku, Quang Duc, Phuoc Long, and Binh Long provinces. Route 20 is closed in Long Khanh Province. Route 19 is closed west of Pleiku town. Route 7 is closed in Phu Yen Province. Route 11 is closed in Tuyen Duc Province. Interprovincial Route 1 is closed in Binh Duong and Phuoc Long provinces. Provincial Route 10 is closed in Hau Nghia Province. The National Railroad is open between Saigon and Gia Ray, Long Khanh Province; between Ca Na, in Ninh Thuan Province and Ninh Hoa, in Khanh Hoa Province; and between Hué, Thua Thien Province and Quang Tri, in Quang Tri Province.

C. RURAL CONSTRUCTION

1. There was a sharp drop during the past week in the total number of Chieu Hoi returnees. According to the official GVN tally only 120 persons rallied to the government during the period. This contrasts quite unfavorably with the previous week's total of 499 persons. Civilian returnees constituted more than one-half of the current week's total, with 74 listed in this category. There were also 35 military defectors, and 11 political officials. Totals for the previous week were 214 military defectors, 101 political officials, 182 civilians, and two draft dodgers/deserters.

2. The US Cadre Liaison Group in Saigon, is now working closely with the new chief of the rural construction cadres, Lieutenant Colonel Tran Ngoc Chau. General Lansdale's Senior Liaison Office is also maintaining close contact with both the US Cadre Liaison Group as well as the Ministry of Rural Construction. Colonel Chau has prepared and distributed a draft statement of basic policy for the recruitment, training, and employment of rural construction cadres. The policy statement is to be reviewed and commented on by provincial authorities, after which a final policy directive will be issued. Colonel Chau and his American advisor also are continuing their survey of cadre resources in order to match assets at hand against projected requirements for 1966 provincial pacification plans. Based upon this survey, a priority system will be established for training and deploying rural construction cadres.

3. For the first time, all provinces have or will have approved rural construction budgets before the beginning of 1966. Hopefully, provincial budgets will also be strengthened during the year by certain revisions such as improved fiscal and accounting procedures, the details of which are now being worked out.

4. In order to insure the timely and effective implementation of the 1966 rural construction programs, the minister of Rural Construction, General Nguyen Duc Thang, plans to create a 120-man inspection corps. This group of inspectors will be responsible for making field checks to insure that the programs are being conducted as planned.

5. Although the Viet Cong have already proposed a four-day truce period during the lunar new year holiday (20-23 January), government plans for a major effort, starting early in January, apparently will not be affected. South Vietnamese and US officials are in the midst of a joint planning effort for an all-out holiday psychological warfare effort. Planning is broad in scope and is intended to reach all segments of the South Vietnamese population as well as the Communist armed forces. Objectives of the program include encouragement of a maximum response to the Chieu Hoi effort, enhancement of the confidence of the Vietnamese people in their government, belief in the invincibility of the GVN cause, and erosion of confidence of Viet Cong/PAVN confidence in their leadership and cause. Intensive efforts will be made to cause desertions among the ranks of the Communist military forces as well as to sway the civilian population in Viet Cong-controlled and contested areas. Full advantage will be taken of the sentimental aspects of the holiday season--especially the "return to home" theme.

6. Part of the psychological campaign will be the introduction of television into South Vietnam, hopefully by the time of the Tet celebration. Public announcement of the TV plan was made on 24 December by the Saigon government.

7. A recent report by USIS in Saigon points up two notable examples of the slowly evolving impact of psychological warfare operations against the Communists. In the IV Corps Tactical Zone, it was noted that, during the period 25 October-14 November, 62 of a total of 86 Chieu Hoi returnees came in bearing specially prepared surrender leaflets. These leaflets were part of an intense government effort conducted throughout IV Corps area on 24 October. The Viet Cong were reported to have reacted to this campaign by killing several GVN cadres and two children of other GVN officials, as well as by threatening Vietnamese Information Service personnel. During the Plei Me campaign in Pleiku Province, most of the 14 PAVN defectors were reported to have been carrying surrender leaflets. Surrender leaflets were found on many of the bodies of the Communist dead. In view of the prevalence of these leaflets among the PAVN

dead, USIS comments that ways should be developed to provide an opportunity to surrender to those who desire to do so.

8. According to a 26 November report from the US consul at Hué, a pacification effort, launched in mid-October to recover those areas of Hoa Vang district which lie close to Da Nang city and the vital US airbase, has made little tangible progress. The plan, originally presented in late September by the province chief, actually did not get underway until 18 October when the first search-and-destroy operations were launched. The operation was the outgrowth of an agreement by Major General L.W. Walt, III Marine Amphibious Force Commander and the I Corps Tactical Zone commander General Nguyen Chanh Thi to cooperate in a joint effort to pacify certain areas near the Da Nang airbase.

9. The concept of operations visualized a two-phase program to pacify nine villages and 38 hamlets. Five villages, with 21 hamlets were to be pacified during the period 1-30 November, with the remaining villages and their hamlets completed in December. However, no significant progress had been reported by 26 November.

10. GVN statistics relating to the security conditions in this area close to Da Nang are remarkably candid, and present a bleak picture. Of the 15,845 families in the area, over 1,000 are known to have relatives with the Viet Cong. Over 450 identified Communist officials and guerrillas are from this region. Twenty of the 48 hamlets in the area are acknowledged to be under Viet Cong control, nine are considered secured, and nine contested. Only 83 Popular Forces and 50 village and hamlet officials are present in the area.

11. The operational force which was to operate in this thoroughly penetrated area initially consisted of one Regional Force battalion, five People's Action Teams (PAT), 344 Mobile Action Cadres, psychological warfare teams, and the small number of government personnel already present. Two US Marine battalions were detailed to ring the area in order to prevent penetration by outside Viet Cong forces.



II. DEVELOPMENTS IN THE BLOC

A. POLITICAL

1. Hanoi propaganda has attempted to discredit the current US cessation of the air attacks against North Vietnam by claiming that hostile US air activity over the DRV is continuing. The DRV has protested to the ICC charging that "many formations of US jet fighters repeatedly overflow the DRV and carried out reconnaissance and provocative activities" on 25, 26, 27, and 28 December. This is the same line that Hanoi took toward the first five-day cessation of the bombings last May. Neither Peking nor the Liberation Front has yet commented on the current standdown.

2. Moscow's decision to send one of its top leaders--party secretary Shelepin--to Hanoi indicates a clear intention to make its influence felt with the North Vietnamese. The visit, announced on 28 December, will mark the first trip to Hanoi by a high-level Soviet leader since the Kosygin mission last February. The Soviets probably feel that the current pause in US bombing raids against North Vietnam provides a good opportunity to encourage Hanoi to seek political alternatives to the war. The announcement of the Shelepin visit coincides with increased Russian material and political support for the DRV and renewed expressions of Hanoi's gratitude for Moscow's "great assistance."

3. The Soviet mission represents a direct challenge to China's influence in Hanoi, however. In what may have been an effort to placate the Chinese, the North Vietnamese party daily on 28 December published a lengthy article praising the "broad and tremendous support" which Peking has provided North Vietnam. The article cited numerous examples of Chinese pledges of support, including statements by Mao Tse-tung and Chou En-lai. There was, however, an undertone in the article suggesting that Hanoi feels Chinese aid has been more in the form of talk rather than action. Although Peking has insisted that it will "stand shoulder to shoulder" with its Vietnamese comrades, Hanoi may feel that Peking should provide additional assistance and cooperate more fully with Soviet efforts to aid the DRV.

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4. Hungary granted North Vietnam a new long-term interest-free loan as well as a moratorium on repayment of past loans on 28 December. In addition, a separate agreement on Hungarian "economic assistance of a different nature" was also signed in Budapest by North Vietnamese Deputy Premier Le Thanh Nghi and Hungarian Vice Premier Fock. The vague terminology used to describe the second agreement may indicate an attempt by the Hungarians to supply minimum support for Hanoi's war effort without publicly committing itself to any specific military assistance. The announcements indicated, however, that the assistance offered is more generous than Le Thanh Nghi was able to arrange when he was in Budapest early last summer. The DRV deputy premier has gone on to East Germany.

B. MILITARY

1. Eleven MIG-21/FISHBED fighters have been introduced into the North Vietnamese fighter inventory, but apparently there is no appreciable change in the composition of their MIG-15/17 force.

Detailed analysis of 23 December high altitude photography revealed the following tactical aircraft at the airfields indicated:

PHUC YEN

49 MIG-15/17s
5 possible MIG-15/17s
5 IL-28/BEAGLES
7 MIG-21/FISHBEDs
4 probable MIG-21s

KEP

9 MIG-15/17s

The detailed photographic analysis could not determine if the confirmed MIG-21s were clear air mass or all-weather models. In either case, these newer generation fighters at Phuc Yen pose an increased threat to US air operations over North Vietnam.

It is possible that a number of MIG-15/17s and several IL-28 aircraft were airborne during the period the high altitude aircraft overflew Phuc Yen and Kep airfields, however, it is believed that the inventory remains at about 63-66 MIG-15/17s.

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2. The identification of nine more SAM sites in North Vietnam raised the total in that country to 61. The addition of sites 53 thru 61 adds depth to the North Vietnamese SAM system but does not extend its coverage for example, to the critical area just east and northeast of Hanoi.

III. THIRD COUNTRY DEVELOPMENTS

A. UNITED KINGDOM

1. Edward Heath, leader of the Conservative Party opposition in the United Kingdom, has indicated an interest in visiting Saigon 9-11 January as the last stage of his Far East trip.

[REDACTED]

B. DIPLOMATIC APPOINTMENTS

2. On 26 December the GVN semi-official news agency Viet Nam Press reported that the British Government had granted agreement for the appointment of former deputy premier Tran Van Tuyen as GVN ambassador in London. However, approval by the ruling military Directorate has not yet been officially announced, and the appointment could be delayed or blocked, as has happened before in the case of GVN diplomatic appointments.

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3. [REDACTED] Foreign Minister Tran Van Do has formally submitted to Premier Nguyen Cao Ky and Directorate Chairman Nguyen Van Thieu the following proposed diplomatic appointments; Ngo Ton Dat, charge d'affaires in Seoul, to be raised to ambassador; Colonel Nguyen Van An, chief of the Vietnamese delegation to the ICC, to become consul general in New Delhi, and former chief of the Joint General Staff General Tran Van "Little" Minh to be ambassador to Italy.

C. TELEVISION AGREEMENT

4. Radio Saigon announced on 24 December that the US and GVN had reached preliminary agreement to introduce television into Vietnam. Limited service reportedly may begin during Tet, (21-23 January). US Armed Forces television will also be inaugurated at about the same time.

D. CAMBODIA

5. Prince Sihanouk has responded with predictable heat to announcements that allied forces in South Vietnam

in exercising the right of self-defense might take action across the Cambodian border. Accusing the United States of seeking excuses for military intervention in Cambodia, Phnom Penh has called upon the 1954 Geneva signatories to make clear their intentions should the US violate Cambodian borders, reserved the right to appeal to the UN, and declared that all border incursions will be repulsed. Meanwhile, Cambodia's invitation to the ICC to control the part of Sihanoukville and inspect arms shipments to Cambodia's military forces remains under consideration.

6. The GVN intercepted two Cambodian motorized launches towing five junks each near Phu Quoc Island on 25 December. The launches escaped, but a GVN patrol craft captured some of the junks and nine Cambodians. The junks were carrying only shovels and baskets and no gunfire was exchanged during the interception, suggesting that Viet Cong were not aboard. Subsequently, on 27 December, a GVN patrol craft reported it was being approached by a Cambodian patrol craft and requested US assistance. Embassy Saigon, however, directed that under no conditions were US units to engage Cambodian units, even if South Vietnamese units or territory were to be attacked. The US mission has requested clarification of the rules of engagement and recommended that US naval units not become involved in fighting between Vietnamese and Cambodians.

E. ICRC

7. On 22 December, a four-man International Red Cross Mission began inspecting South Vietnamese prisoner of war camps by visiting a camp in Bien Hoa Province.

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ECONOMIC ANNEX

INFLATIONARY PRESSURES EXPECTED IN
SOUTH VIETNAM IN 1966

1. The GVN economy will face growing inflationary pressures during 1966. The large and mounting deficit in the GVN budget, the increase in US forces, and the planned US increase of in-country spending for military and civilian construction will place new demands on an economy which has little unused capacity. Transportation bottlenecks, a shortage of labor, and possible decreases in agricultural output will exacerbate supply problems. The resulting imbalance between demand and supply may result in price rises as great or greater than the 35 to 40 percent experienced in 1965. The inflationary impact would be particularly severe in Saigon and other areas where VC activity and the US force build-up have been intensified.

2. Before 1965, the inflationary impact of GVN budget deficits had been contained by the increasing use of money, instead of barter, in the rural economy, the import of commodities under the AID commercial import program and PL-480, and the willingness of the Vietnamese public to hold larger cash balances. During 1965, however, major inflationary pressures were unleashed by the conjunction of shortages of goods, the increase in foreign personnel demands for in-country goods and services, and the accelerating increase in wages resulting from price rises and declining manpower reserves.

3. During 1966, the GVN budget deficit, even if expenditures are limited to the proposed level of 55 billion piasters, could rise above the 15-18 billion piasters estimated for 1965 to 20 billion piasters or more. US and other foreign troop spending and the piaster component of military construction may jump from about 10 billion piasters in 1965 to an estimated 30 billion piasters. The total of 50-55 billion piasters for budget deficit and foreign spending (compared to about 29 billion piasters in 1965) is equivalent to over one-third of all goods and services available in Vietnam in 1965, and is substantially more than the total of the present money supply of 42 billion piasters. Since inflationary pressures will be working against a far

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smaller level of idle resources in the economy, their impact will be more severe and more difficult to contain than during 1965. Table 1 shows percentage increases, as reported by the Dunkerly mission, in the cost of living and in money supply during the years 1962-64 and the first three quarters of 1965.

TABLE 1

Percentage Increase in Cost of Living and Money Supply

	1962	1963	1964	1965 (at annual rates)			October
				First Quarter	Second Quarter	Third Quarter	
Cost of Living (for workers excluding housing)	2.8	7.3	3.4	4.4	18.4	56.8	62.4
Money Supply	13.1	14.5	23.1	73.6*	28.8	79.2	55.2

*Reflects seasonal movement for Tet Holiday.

4. The major factor restraining inflation has been the supply of AID-financed commercial imports and PL-480 commodities. Although the generation of counterpart funds from US-financed imports will be increased substantially during 1966, the GVN budget deficit will probably increase despite this assistance. A second factor restraining inflation in the past has been the traditional tendency of the Vietnamese to hold a part of additional income in the form of money. If prices accelerate, money holdings are discouraged and the demand for goods is increased as a consequence.

5. The increase of domestic and import commodities adequate to satisfy increased demands will be critical to maintenance of a measure of economic stability during 1966. Inadequate port and transport facilities have

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created serious bottlenecks in the operations of the domestic economy. There have been major increases in internal transport, warehousing, and stevedoring costs. The major threat from inadequate port and transport facilities is the danger that these will be unable to handle the volume of commercial and military imports essential to relieve the burden on domestic supplies and to meet the anticipated demand.

6. Specific material resources are expected to be in short supply during 1966. Prices for construction materials have increased markedly in 1965. For example, in the past three months, gravel prices have doubled; the price of sand has doubled during the last year; brick prices are up 75 percent; and lumber prices have also increased substantially. In general, any increase in demand for construction materials brings about an immediate and pronounced response in price with only a belated and small response in quantity. Prices of luxury consumer goods and the more expensive food items are expected to continue their sharp increases as the result of local spending by US and other foreign personnel. These items include meat, seafood, fresh vegetables, beer, cigarettes, and high-priced textiles. In contrast, the prices of rice, fish sauce, and low-priced textiles, which are basic necessities for the poorer elements of the Vietnamese population, have maintained relative price stability; this trend is expected to continue during 1966.

7. Anticipated increases in 1966 US expenditures for construction in Vietnam will have additional repercussions in the manpower sector of the economy. Wage rates for most categories of skilled construction workers have doubled during the last year. Wages for unskilled labor have not increased as sharply but are estimated to have increased by at least 50 percent in Saigon. With the exception of rural labor in isolated areas, Vietnamese manpower resources are now fully employed.

8. Control of the inflationary threat to economic (and hence political) stability during 1966 is clearly dependent on US and GVN countermeasures. For example, the US could meet the bulk of the requirements for skilled labor and critical commodities needed to expand port facilities and for military construction, from sources outside of South Vietnam. Additional measures

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to control in-country spending by foreign personnel are possible. Similarly, new GVN fiscal measures, such as sharply increased taxes, are effective tools in soaking up excess purchasing power. But even under the best of circumstances, the problem is to limit inflation to manageable levels in 1966, not to aim for price stability.

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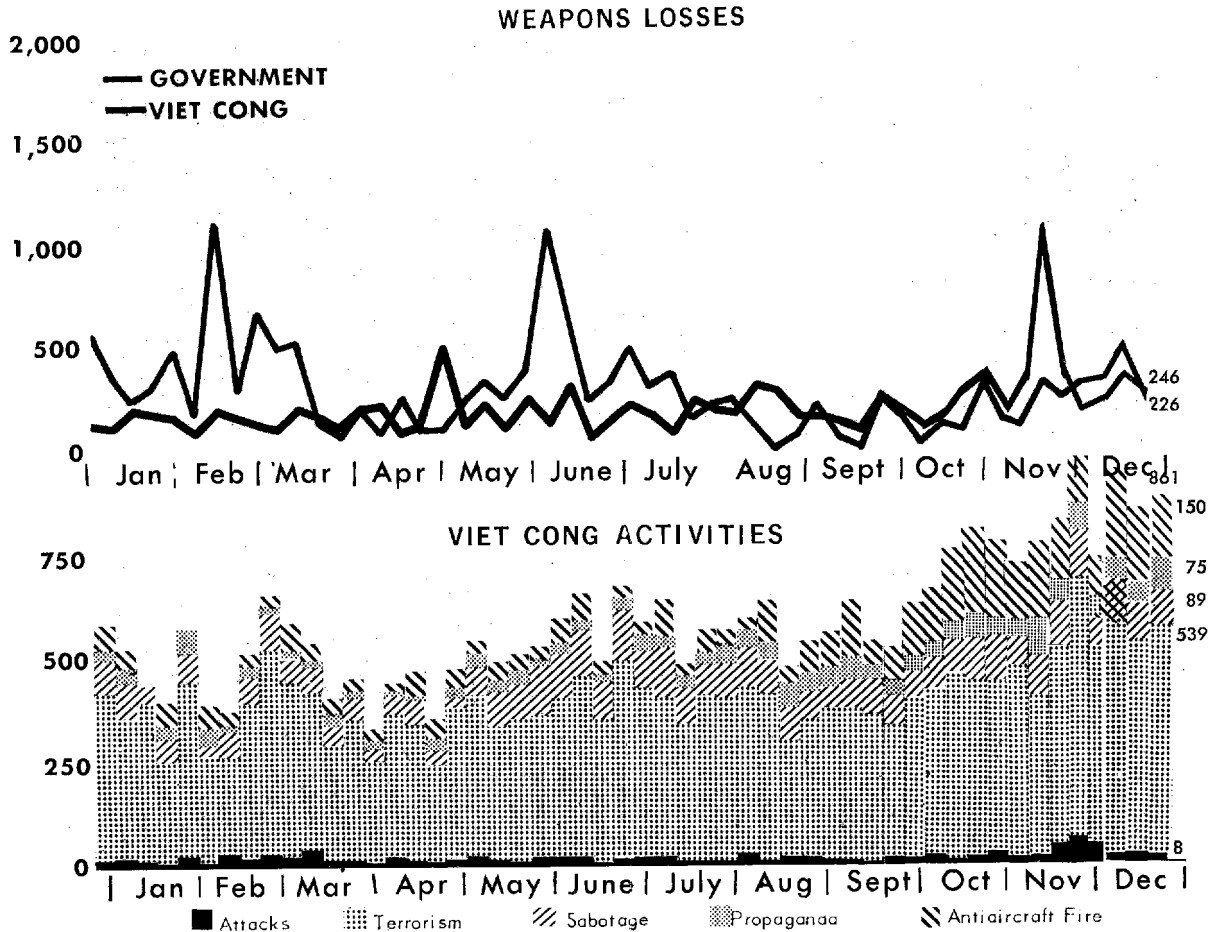
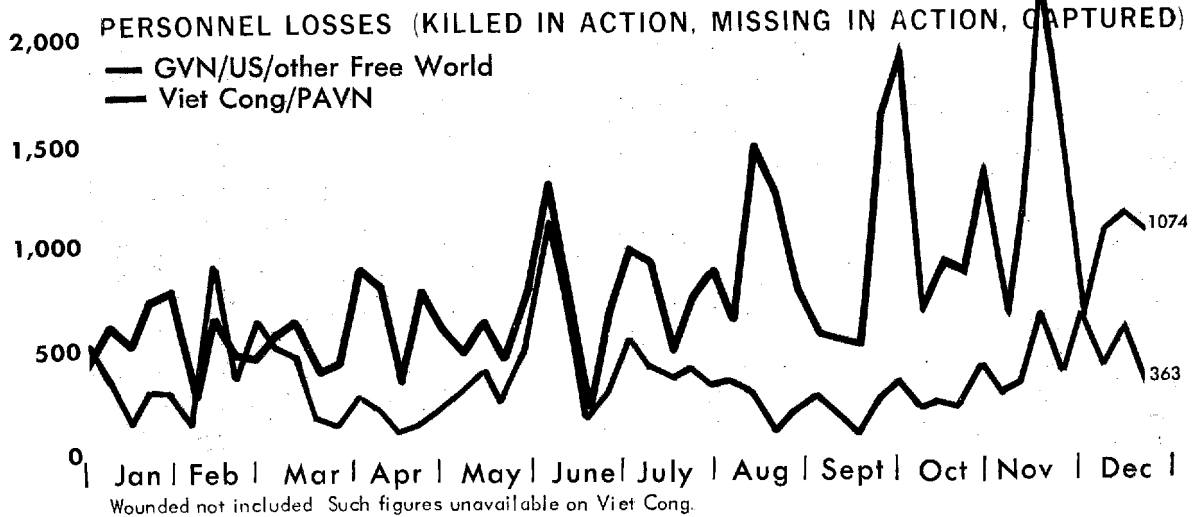
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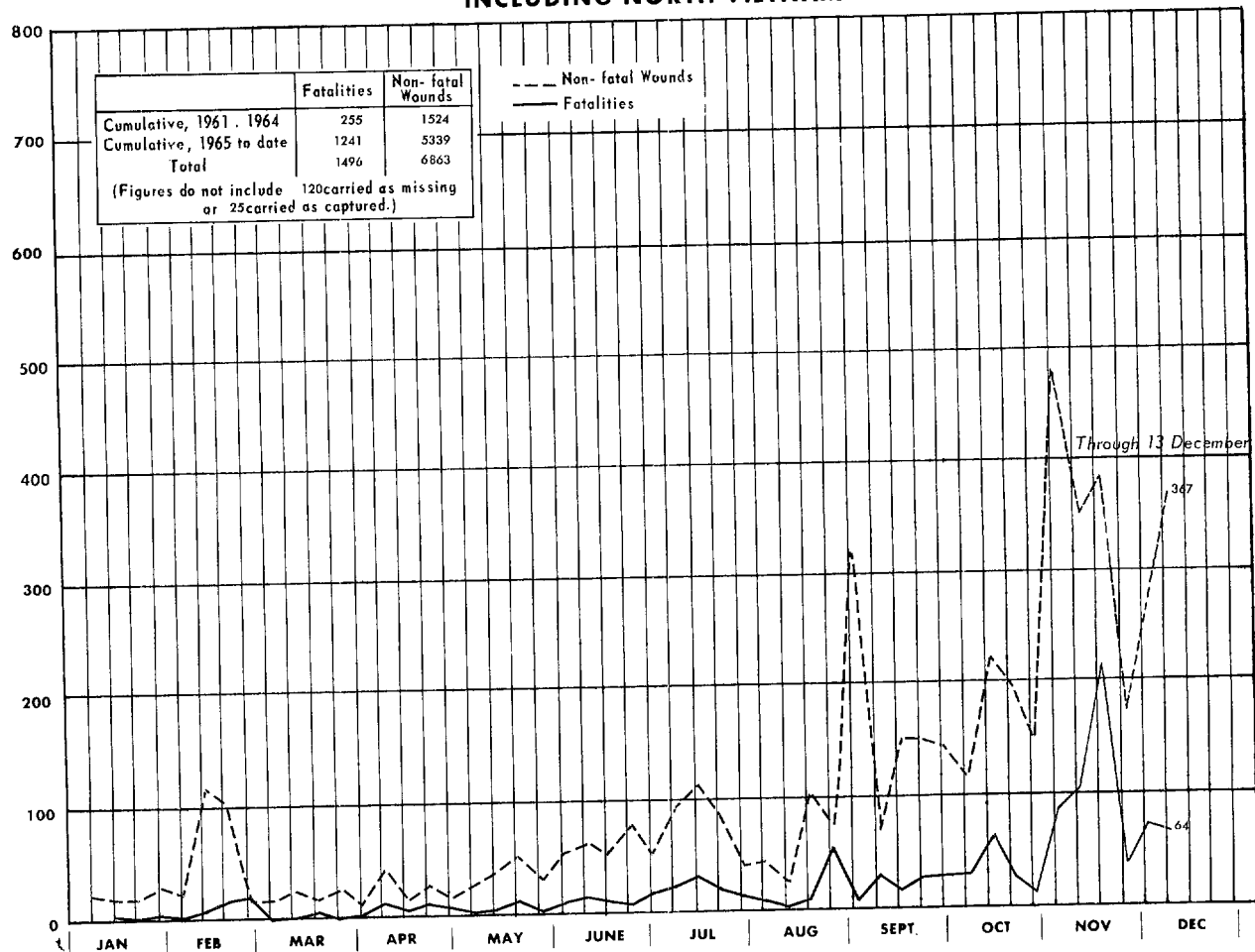
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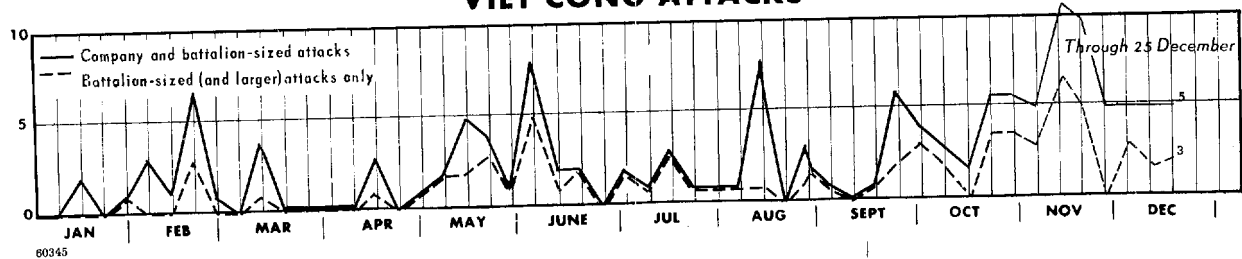
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US COMBAT CASUALTIES IN VIETNAM INCLUDING NORTH VIETNAM



VIET CONG ATTACKS



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